Pacific National Exhibition

Annual Report 2007

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Pacific National Exhibition

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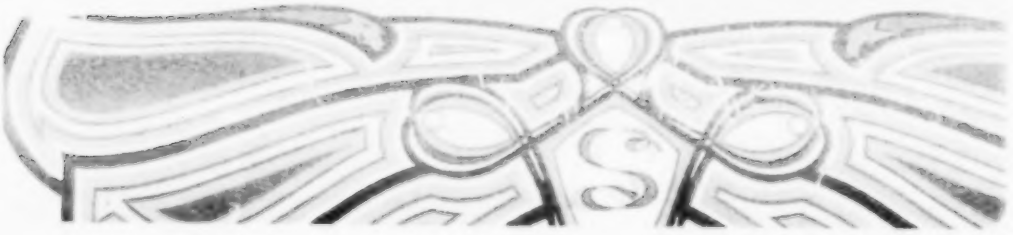

Letter from the Chair of the Board of Directors and the President and CEO of the Pacific National Exhibition

The 2007 year was one of much excitement for the PNE, starting with great anticipation as the Vancouver Giants began their run for the Memorial Cup. The Canadian Hockey League Memorial Cup tournament was hosted at the historic Pacific Coliseum, with the best of major junior hockey coming to Vancouver. Beginning immediately after a great playoff run, the tournament brought in record crowds of over 92,000 guests to see the Vancouver Giants ultimately win the Memorial Cup.

Although Playland saw considerable rainfall throughout the season, both attendance and revenues were strong. Higher-than-anticipated maintenance costs, however, resulted in lower-than-expected net revenues. As well, the Fair at the PNE was adversely affected by inclement weather, receiving rain on eight out of 17 days, with the majority of rainfall occurring on peak weekend days, including the final Labour Day weekend. As the Fair is such a large part of the PNE business, this had a significant effect on revenues and was the largest factor in the less-than-favourable financial position by year-end. Despite the weather challenges that affected the Fair, the entertainment offering was very well received by visitors.

Fright Nights, for the fourth year in a row, was successful and exceeded revenue and attendance targets. This event continues to build momentum as the premier Halloween event in Vancouver.

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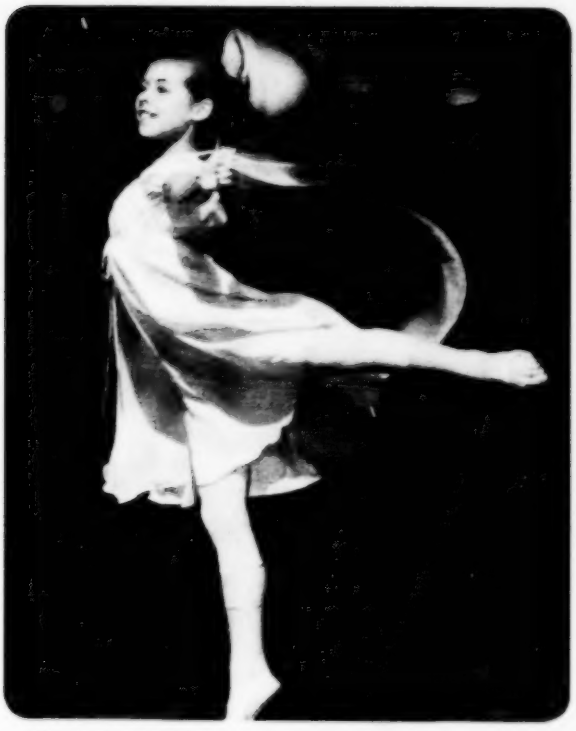


Throughout the year, Hastings Park remained active and vibrant for the more than three million visitors who came to the park for a variety of community, cultural and religious events, trade and consumer shows, concerts and film shoots, Vancouver Giants hockey games, and simply to visit the public park.

With the 100th anniversary of the PNE fast approaching in 2010, we remain committed to evolving so as to best serve guests and clients in the immediate and greater communities through all the diverse uses of Hastings Park. The PNE's business-minded and community-minded philosophy will continue to make this a viable organization that benefits Greater Vancouver as well as British Columbia, both economically and culturally.

Although 2007 was fraught with inclement weather, it also saw many successes. We would like to take this opportunity to thank all of the dedicated and hard-working staff who have continued to go above and beyond, year after year, to make this great company successful. Much thanks to the Board of Directors for their many hours of service and dedication to the present and future of the PNE. Together, we look forward to continuing our long history of enriching the quality of life at Hastings Park by providing family entertainment that invites our guests to celebrate Vancouver's heritage, culture and diverse communities in a vibrant urban public park.

James Ridge
Chair, Board of Directors

Michael McDaniel
President and CEO

II. Overview of the Pacific National Exhibition

2007 encompassed many proud achievements for the Pacific National Exhibition (PNE), as well as being the 97th year of this organization's rich history.

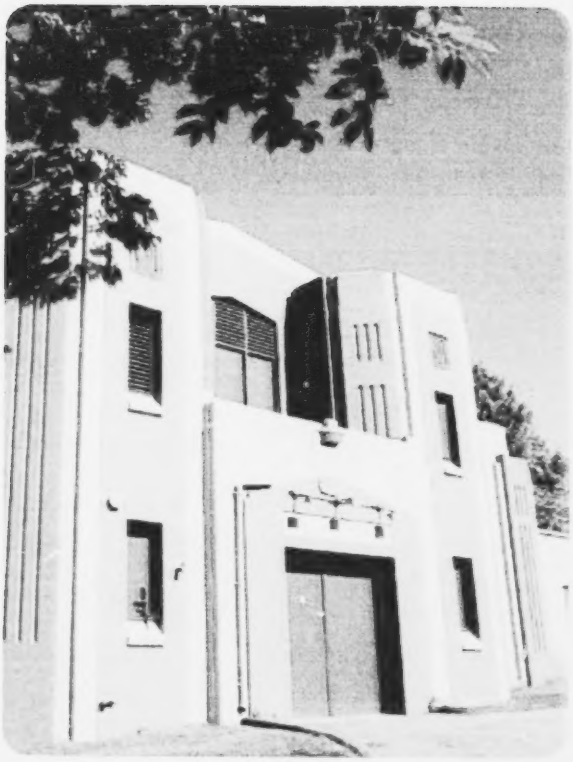
Since it was established in 1910, no other site in the Lower Mainland has captured the spirit and history of this city, its people and its many achievements as well as the PNE has. Whether through recent events, such as playing host to the World Junior Hockey Championships and the Memorial Cup Junior Hockey Championships, or through the many historic 'firsts' held on-site and at early Fairs, such as the Miracle Mile performances by Elvis and the Beatles or the introduction of world-changing products such as "the telephone", the PNE continues to be Vancouver's place to gather and celebrate.

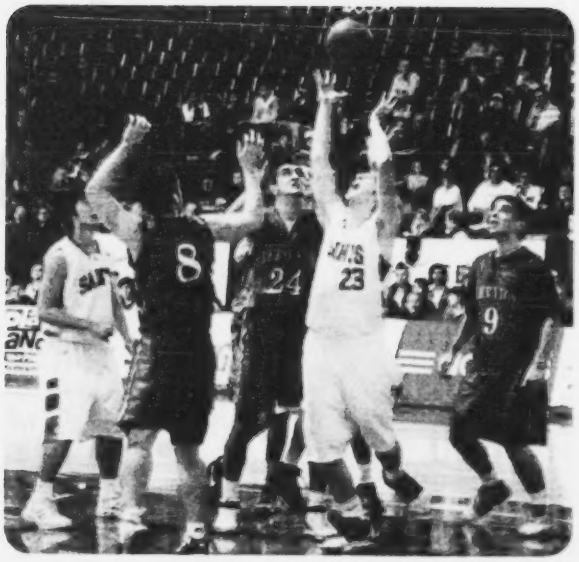
The PNE is a non-profit registered charity owned by the City of Vancouver and today remains the epicentre of events that entertain and shape the experience of our city and residents. Every year, guests enjoy a wide range of experiences that emulate the diversity of our city. We host millions of guests annually at concerts, sporting events, community festivals, cultural activities, Playland amusement park and, of course, the annual summer Fair at the PNE – the longest-running and best-attended event in British Columbia. The PNE is proud to set the standard for family entertainment in BC and to serve as Vancouver's main source of agricultural education and exhibits for over 90 years. In addition to the events hosted on-site, the PNE also actively encourages public access to and use of the beautiful Hastings Park site throughout the year for walking, jogging, family picnics, riding a bike or walking the dog.

The mission of the PNE is to enrich the quality of life at Hastings Park by providing a wide range of family entertainment and events that invite our guests to celebrate Vancouver's heritage, culture and diverse communities within a vibrant urban public park. We embrace our tradition as Vancouver's favourite place to celebrate and proudly serve as the hub of social, community and cultural activities in Vancouver.

The PNE works to achieve its mission through an underlying set of core values, which impact every aspect of our commitment to our staff and the guests we serve. These values are:

- Strive for excellence, always
- Remain industry leaders by providing the best entertainment value for our guests in a clean, safe and fun environment
- Build on our history and tradition while proactively creating our future
- Treat all partners, employees and guests with integrity, fairness and respect
- Stay committed to the growth and sustainability of the organization and the Hastings Park site





III. 2007 – Year in Review

Following 2006, one of the strongest years in close to a decade, 2007 was another year of many proud achievements for the PNE. Playland had a solid season and exceeded budget and attendance expectations despite poor weather on many weekend days throughout the summer. Year-round facility rentals were strong, allowing the PNE to showcase a diverse range of concerts, sporting events and cultural activities. As one of the highlights, the Pacific Coliseum played host to the 2007 Memorial Cup Championships following on the heels of a strong regular season for the Vancouver Giants. Both revenues and attendance for year-round events exceeded targets. The Fair at the PNE showcased some outstanding new entertainment and surpassed guest expectations; however, Fair attendance and revenues were down due to increased investment in this marquee event's growth, coupled with poor weather throughout the 17-day event. This did have a significant impact on the organization's financial performance for 2007, despite significant mitigation efforts throughout the remaining months of the year.

Overall, the PNE provided guests with a diverse range of social celebrations and provided millions of fun-filled memories, and the public park was widely enjoyed by the local and surrounding communities.

A. Event Highlights

Playland Amusement Park

Playland was open for 100 operating days in 2007, six fewer days than in 2006, and played host to 302,673 guests between April 21 and September 30. See Figure 1 for six-year attendance trend. This was another stellar season in Playland, and the highlights include:

- Increase in attendance of 1,332 guests over 2006, exceeding previous year attendance and 2007 targets, despite six fewer operating days than in 2006.
- Addition of several new attractions – a new basketball court, ferris wheel, redesigned haunted house and a children's ride – with minimal capital investment, to help keep the guest experience fresh.
- The Amusement Park Science and Physics program generated 22,480 visits by primary and secondary school students to study the "science of fun" at Playland. This was an increase in attendance of 11% over 2006.
- The group sales VIP corporate event program also showed strong growth in 2007, with 25,577 guests attending preplanned company events in Playland, a 9% growth in attendance and 29% increase in gross revenues for the program over 2006.
- Gross revenues from park operations exceeded budget by 3%, reaching $10.80 million for the year. See Figure 2 for six-year trend.
- Operating surplus was $3.35 million for 2007. This was slightly lower than anticipated due to a higher-than-anticipated investment in ride maintenance. See Figure 3 for six-year trend.
- Season pass sales continued to grow in 2007, with a 5% increase in regular pass sales and a 48% growth in junior pass sales over 2006. This is due in part to the continuing momentum of the Christmas campaign, and the introduction of the eye-catching card-style season passes, available in stores over Christmas for the first time in 2007.

Figure 1
Playland attendance

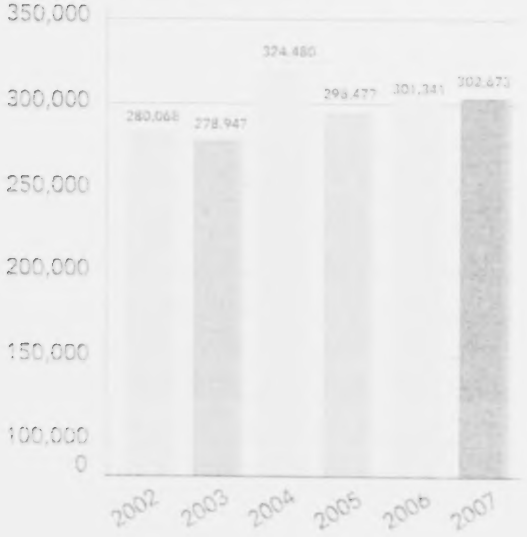
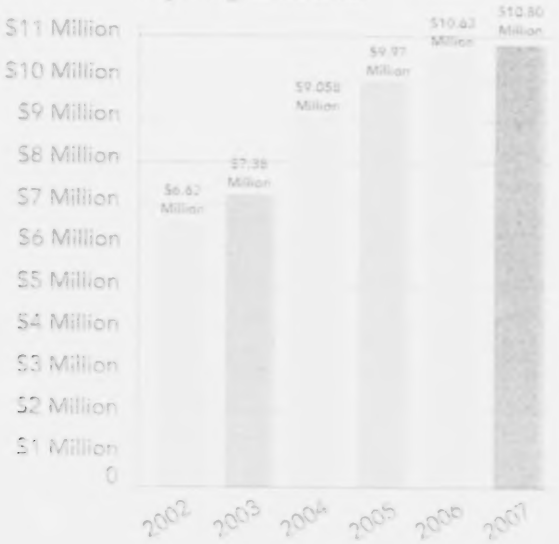


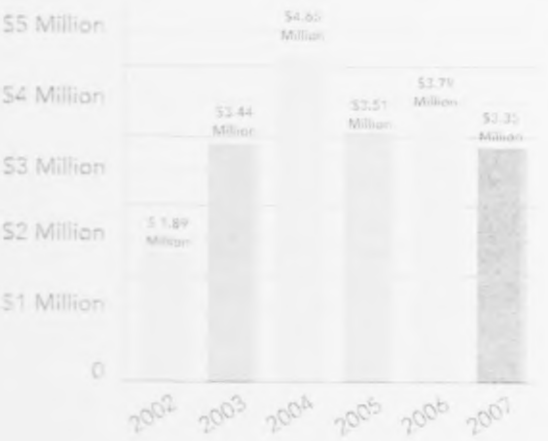
Figure 2
Playland gross revenues



Overall, Playland continued its trend in 2007 of consistently meeting its attendance and revenue goals and is recognized as a premier entertainment destination in the Lower Mainland. From the thrill of the extreme rides to our special zone for children aged three to eight, from the games to food, and from special attractions to VIP corporate events, Playland attracts over 300,000 fun-seeking youths and families each year. Continued attention to the elements that contribute to Playland success – such as a focus on group sales, custom special events, off-site ticketing, site appearance, landscaping and the provision of safe, fun family attractions – will continue to keep Playland at the forefront of success for years to come.

Playland gift cards

Figure 3
Playland net contribution



Fright Nights at Playland

For the fifth consecutive year, the end of the 2007 Playland season has signalled a transformation of Playland into the eerily popular Halloween event that has become a 'must do' for teens and adults throughout the Lower Mainland. Fright Nights is the PNE's own unique Halloween event with rides and haunted attractions. The 2007 event ran for 17 nights, from October 12 through October 31, 2007, and highlights included:

- Event expanded in 2007 to include one additional haunted attraction, a new show component, increased levels of impromptu street entertainment and an increased event footprint that included one more ride for guests to enjoy.
- These improvements resulted in Fright Nights welcoming 64,378 guests in 2007, an increase of 5% over 2006. See Figure 4 for five-year attendance trend.
- Gross revenues for 2007 were $1.59 million, resulting in a net contribution of $515,692. While the gross revenues were slightly lower than 2006 due to lower-than-anticipated per person spending on-site resulting from poor weather, costs were managed appropriately, resulting in the net contribution actually increasing by 4.2%. See Figures 5 and 6 for five-year trends.
- Off-site retail ticketing was also made easier for guests in 2007 by reducing the number of ticket types available from 17 (buying tickets for a specific night) to simply buying either a weekday or weekend pass. With a price premium on weekends, this also helped to flatten attendance across days of the week and alleviate guest congestion on key weekend nights.

Figure 4
Fright Nights attendance

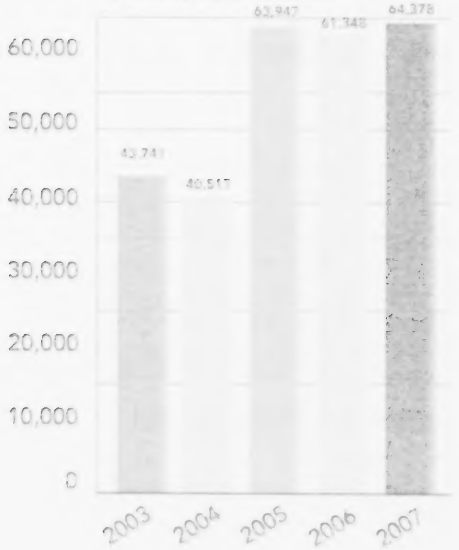
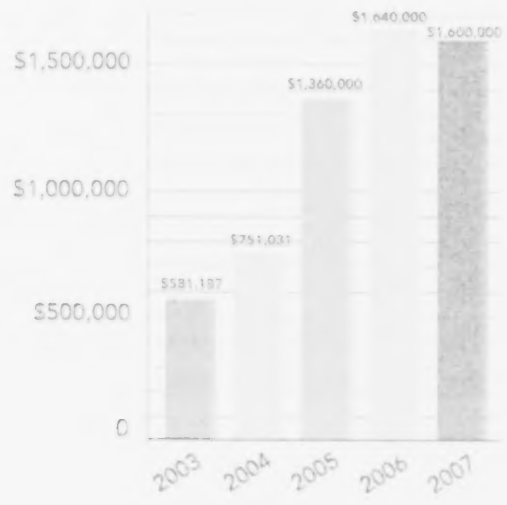


Figure 5
Fright Nights gross revenue



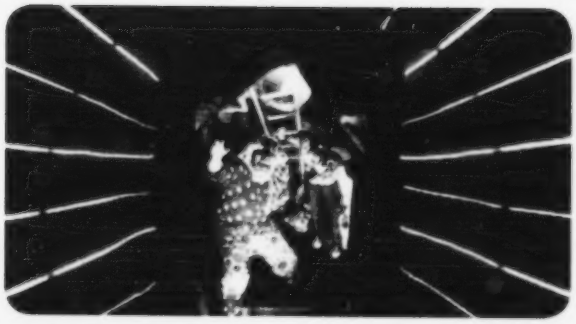


Figure 6
Fright Nights net contribution

The Fair at the PNE

Since 1910, the Fair at the PNE has been Vancouver's signature summer tradition with a wide range of free shows, exhibits, demonstrations, rides, games and food, and a vast array of family entertainment for all ages. In 2007, the Fair operated from August 18 through September 3, with the following highlights:

- Fair entertainment included spectacular hits such as the Peking Acrobats, Rolling Thunder, Toontastic Celebration Parade and a revamped Summer Nights Concert Series, as well as the traditional guest favourites such as Superdogs, Farm Country and Dal Richards.
- The Fair launched with an Opening Day celebration that included a free gate promotion for the first three hours of the day. This resulted in the second-largest opening day on record, with a total attendance of 103,389 guests.
- In total, 906,808 visitors enjoyed the Fair, down 5% from 958,781 in 2006. Weather played a negative role, especially on our peak weekend days. Moreover, weather also greatly affected the final Labour Day weekend (traditionally our busiest weekend), which did not allow for any recovery time, with the Fair ending on Labour Day Monday. Please see Figure 7 for six-year attendance trend.
- Decreased attendance resulted in gross revenues of $22.93 million versus a budget of $24.77 million, and an overall net profit of $5.07 million, which was $2.39 million under budget for the Fair. Please see Figures 8 and 9 for six-year trends in gross and net revenues for the Fair.
- The off-site retail ticket program remained strong, with one in every three guests buying a Fair ticket off-site or online, prior to coming to our gates.

Figure 7
Fair attendance

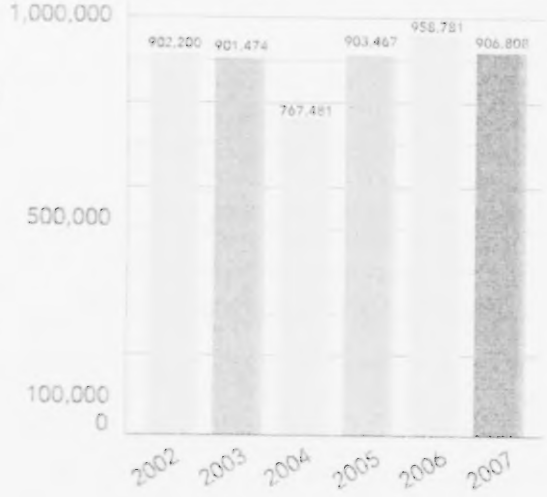
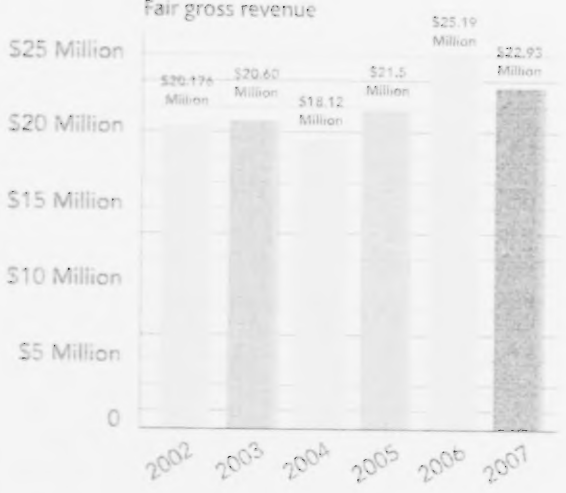


Figure 8
Fair gross revenue

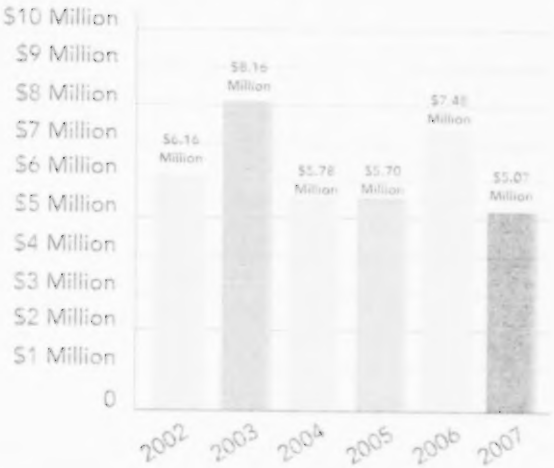


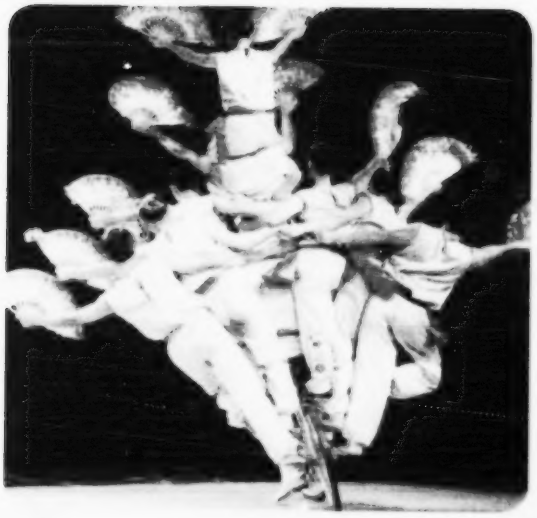
While our on-site research showed that guests who did attend largely had a wonderful experience, the weather had a negative affect on the Fair's financial performance and, subsequently, overall financial performance. Inclement weather affected eight days of the Fair and specifically affected attendance on our peak weekend days. In total, the Fair experienced five more inclement days than our annual average over the 17 days.

In monitoring the event's financial status daily throughout the Fair, the PNE management team was able to activate a number of mitigating efforts to help minimize the negative financial impact of weather. Fair-time staffing was reduced, variable Fair costs were cut wherever possible and no new spending was introduced. Post-Fair, several capital projects were held off until the following year, and each department was tasked with finding areas of cost savings that could be realized between September and year-end.

While these efforts contributed to reducing the overall negative financial impact, direct expenses for the Fair were higher than planned due to pre-Fair spending on key strategic investments designed to facilitate growth of the event in 2007 and beyond. The PNE will continue to benefit from those investments in years to come. Overall, the organization's strength in other business streams and its ability to mitigate spending during and post-Fair resulted in the company being off-budget by $1.80 million rather than $2.40 million for the year.

Figure 9
Fair net contribution



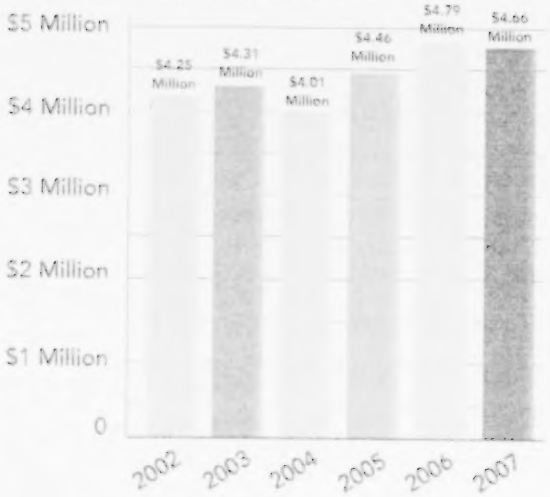


PNE Prize Home Lottery Program

The PNE Prize Home lottery is a 73-year tradition at the PNE. The original, and still the most affordable lottery, this program has become synonymous with the PNE and the summer Fair. In 2007, the house was a "West Coast Casual" style and included a lot on the Sunshine Coast. The grand prize home came fully furnished, and included a prepaid $10,000 Visa and sport boat. Additional draw prizes included 13 vehicles and three early bird draws. The grand prize draw was held September 4, and highlights of the 2007 lottery program included:

- 127,055 total tickets were entered in the draw.
- Total lottery prizes for 2007 were valued at over $1.50 million.
- The lottery achieved gross revenues of $4.66 million. Figure 10 provides a summary of PNE lottery gross revenues since 2002.
- Many sustainable elements were included in the 2007 prize home, in keeping with the PNE sustainability mandate.

Figure 10
PNE Lottery gross revenue



Year-Round Facility Sales

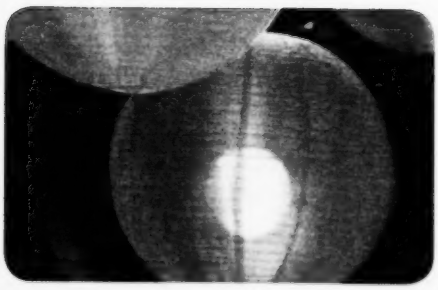
Concerts, Sports and Multicultural Events

A less well-known but very dynamic aspect of the PNE business involves the management and operation of six buildings on the Hastings Park site: the Pacific Coliseum, Rollerland, Garden Auditorium, Forum, Agrodome and the Livestock building. The rental use of these facilities allows the PNE to bring a wide range of events and entertainment to the site, including local, national and international concert productions, sporting events, festivals, community and cultural events, consumer shows, and filming. This landscape of events is ever-evolving and use of these facilities allows the PNE to continue to bring events to the site that reflect the interests of the diverse landscape of our communities.

Because of the fluctuations and volatility within this business stream from year to year, the PNE team develops close relationships with event partners and promoters, remains current on industry trends and works to anticipate market shifts within these industries. This helps to ensure that the site remains busy and active with events for the community to enjoy year-round. Highlights of the 2007 facility sales program follow.

Concerts

- 30 concerts were held at PNE venues, welcoming 136,372 guests.
- The PNE achieved $3.22 million in gross revenue from concert activity.
- The Pacific Coliseum hosted a diverse range of local and national musical acts including Willie Nelson, Maroon 5, Fall Out Boy, John Mayer, Dierks Bentley, Meat Loaf and Snoop Dogg, to name a few.
- The Forum played host to a number of smaller concerts, including The Smashing Pumpkins, Wolfmother, Alexisonfire, Arctic Monkeys and Taking Back Sunday.
- Net contribution of concert activity was $1.43 million in 2007.
- 2007 continued to be a year of significant change in the concert market resulting out of the acquisition of House of Blues Concerts Canada by Live Nation Concerts in 2006. While initially unsure as to what effect this acquisition might have on the Vancouver concert scene, the results have been very positive for the PNE, and many local concert and promoter relationships remained intact after the Live Nation restructuring.
- In addition to the number of mainstream concerts being on the rise, we continue to see an increase in smaller shows held in the Forum building. This is a direct reflection of trends in the local music landscape, with many smaller up-and-coming bands on tour.



Cultural Shows

The PNE continues to shine as a hub for cultural activity. In 2007, we hosted a number of cultural events on-site, providing diversity and a place for all groups to celebrate. The number of guests attending cultural shows exceeded 30,600 in 2007. This attendance is up from 21,715 for similar shows in 2006, but slightly down from overall cultural attendance in 2006 due primarily to the local promoter's cancellation of the Sunbrite Lunar New Year festival in 2007, which would have accounted for 28,000 guests through the site. Highlights of cultural programming on-site included:

- Two Ismaili religious events.
- Five Indo-Canadian shows totalling 26,123 guests in attendance, including Gurdas Mann, which drew approximately12,000 people.
- Concert by CCTC (Chinese Cultural Television) and the CBC, which celebrated the upcoming games in Beijing and Vancouver. This event drew 3,425 guests.

Film Activity

In contrast to 2006, 2007 was a slower year for film activity on-site. The PNE worked with 32 productions for a total of 346 film days on-site and generated $368,463 in gross film revenues. Highlights included:

- PNE facilities used for film activity in 2007 included the Forum, Agrodome, Rollerland, the Livestock Barns, Playland amusement park, parking lots and, occasionally, areas of the outside park.
- The PNE continued to build strong relationships in the industry to ensure that the organization is well prepared for market slowdowns. The department structure responded in 2007 accordingly to market trends and shifts.

Dance Parties

The PNE continues to provide a safe, well-supervised public venue for promoters to host all-night dance parties. In 2007, the PNE hosted four events, bringing 13,650 guests to the site, an increase over the number of events held in 2006. This is a volatile industry, and the 2007 results are a natural market fluctuation for this type of event.

Sporting and Family Events

The PNE continues to be at the very centre of Vancouver's diverse range of sporting events and interests. We remain the home venue for the Vancouver Giants, provide community ice to public and community groups, and annually host Disney on Ice, the BC Boys Basketball tournament, martial arts events, Oldtimers' Hockey and a wide variety of other special sporting events. Highlights of sporting activities held at the PNE in 2007 are:

- The Vancouver Giants continued to show their strength as a junior hockey franchise, participating in 10 playoff games through the end of the 2006/07 season. As in 2006, over 305,000 hockey fans attended Vancouver Giants games in 2007, resulting in gross revenue of $3.40 million, almost $1.50 million over budget for the year.
- The Pacific Coliseum also played host to the 2007 Memorial Cup of Hockey in May. This generated huge excitement within the sporting world, brought 92,900 guests to the Coliseum and generated $1.51 million in gross revenues for the PNE. As an added bonus, the Vancouver Giants won the Memorial Cup in their home venue becoming the 2007 champions.
- 2007 also brought a new festival to the Hastings Park site as the PNE hosted Citytv's "Taste of the City". This was a free-admission one-day event where guests could taste the wares of over 30 of their favourite Vancouver restaurants and enjoy free entertainment on the Citytv cooking stage. Over 5,000 people attended this event in July.

Over 305,000 hockey fans attended Vancouver Giants games in 2007, resulting in gross revenue of $3.40 million, almost $1.50 million over budget for the year.

Revenues for 2007 were $11.32 million, an increase of over $2.00 million compared to 2006.

- Disney on Ice brought the "Princess Wishes" show to the Pacific Coliseum in November with record-breaking success. Over 54,350 guests attended the show over its five-day run.
- BC Boys AAA basketball, the provincial Championship Tournament for boys' high school basketball, hosted over 11,000 guests who came out to support their favourite teams. This event continues to generate momentum and spirit for the sport.
- The Oldtimers' Hockey remained an annual favourite.
- The PNE also proudly hosted over 1,800 students from the surrounding community to the PNE to participate in a local Terry Fox run.
- The PNE provided 949 community ice time slots over 156 days in the Agrodome that were utilized by 27 different community groups in 2007.
- The Garden Auditorium remained home to CirKids circus training school and, in 2007, hosted their annual show "Circus Anonymous".

Trade Shows

PNE facilities are also used to host a number of consumer and trade shows throughout the year.

- Shows included the Lordco trade show, Neptune Food show and the Motorcyle Toy Run.
- PNE Facilities are also used for a series of retail warehouse sales that are open to the public; three large sales were held on-site in 2007.

Facility Upgrades

2010 will be an exciting year for Vancouverites as the city plays host to the 2010 Olympic and Paralympic Winter Games. As part of this world stage event, the Pacific Coliseum has been chosen as the Olympic performance venue for both Short Track Speed Skating and Figure Skating. In preparation for the 2010 Olympic Games, a variety of capital upgrades have been made to facilities at Hastings Park, most notably at the Pacific Coliseum. The PNE has continued to work with the Vancouver Olympic Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) and with the City of Vancouver to facilitate these upgrades.

In 2006, approximately 16,000 new seats were installed in Pacific Coliseum. Throughout 2007, additional upgrades were planned in a phased approach to limit closure of the facility. The upgrades completed or started during 2007 include: the ice sheet surface was extended on the east and west sides of the ice to accommodate international-size ice, the ice plant was replaced, new dehumidification and HVAC units were installed, field-of-play lights were upgraded and new lights added, washroom facilities were expanded and renovated, food and beverage outlets were given esthetic and accessibility upgrades and an additional elevator from the Pacific Room to the concourse and mezzanine levels was added. While many of these projects are now complete, some will see final completion in 2008. The Pacific Coliseum, one of BC's principal sporting and entertainment venues, will continue to experience the many benefits of these updates as part of the 2010 Olympic legacy.

Overall Facility Sales

Based on the highlights noted above, the facility sales portfolio was very strong in 2007. 1,223 event days were booked and attendance at ticketed events was 555,860 guests. While total attendance was slightly lower than 2006, gross event revenues for 2007 were $11.32 million, an increase of over $2.00 million compared to 2006. See Figure 11 for six-year trend. The combination of events on-site provided a net contribution of $4.23 million in 2007, versus $3.54 million in 2006. This increase is due to the combination of events held on-site and hosting a higher proportion of high net-contribution events. See Figure 12 for six-year trend on net contribution for year-round facility sales.

Figure 11
Facility Sales gross revenue

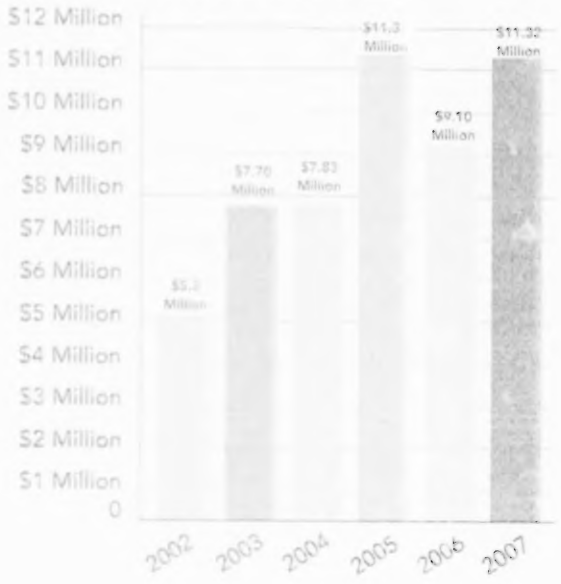
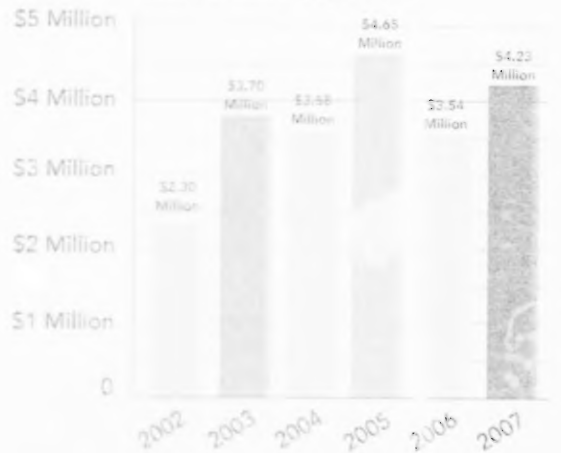
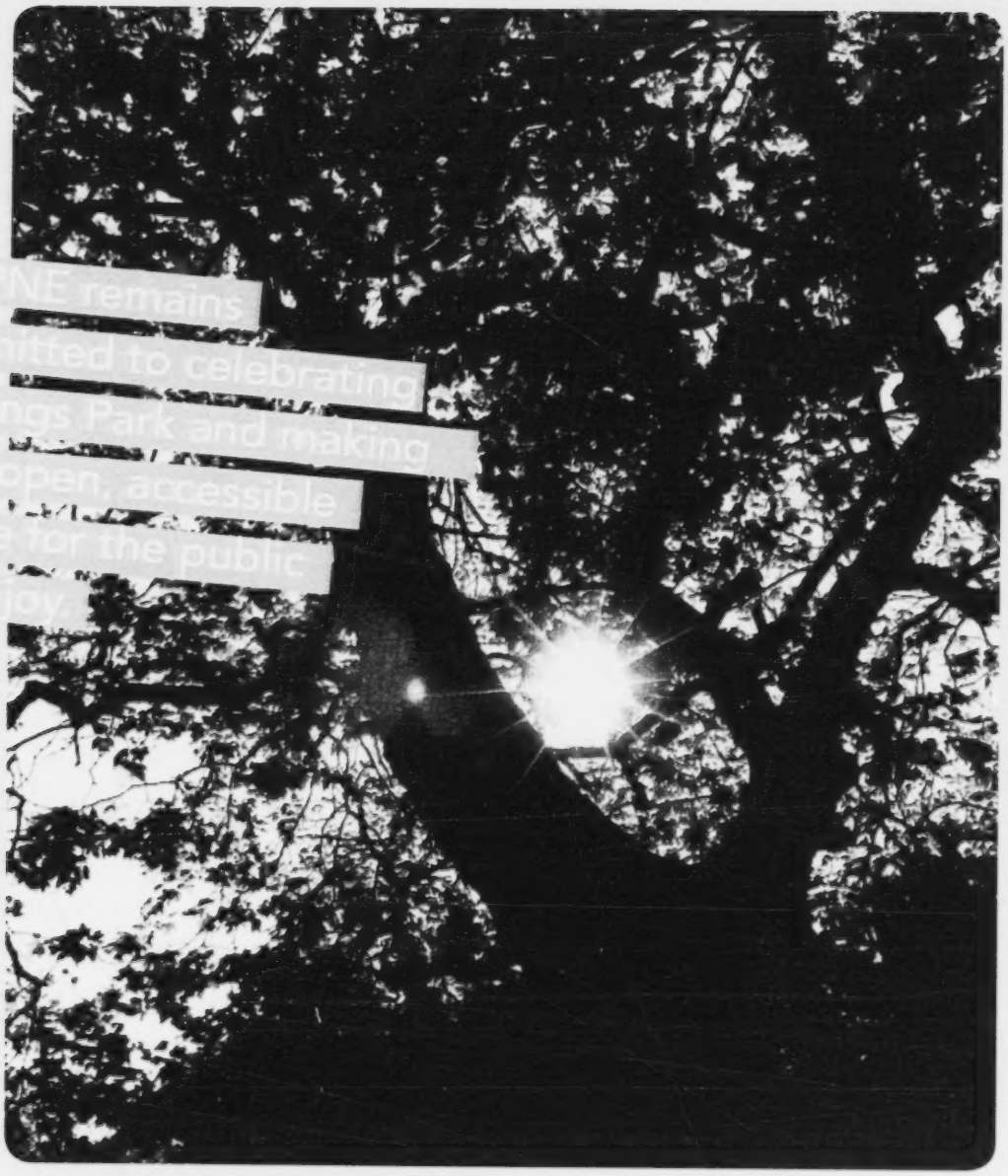


Figure 12
Facility Sales net contribution




The PNE remains
committed to celebrating
Hastings Park and making
it an open, accessible
space for the public
to enjoy.

B. Organizational Highlights of 2007

A Vibrant Urban Park

For 97 years, the PNE has proudly been at the heart of Hastings Park and today continues to serve as the primary steward in maintaining the building facilities as well as the beautifully landscaped public park and gardens. The PNE team maintains the trees, statues, benches, park equipment, lawns and gardens throughout the site on a year-round basis. Care of these grounds and facilities is a regularly budgeted expense and each year the PNE invests millions of dollars to ensure the park remains well taken care of for the community to enjoy year-round. The PNE has specially trained horticultural teams on staff to ensure that these areas, including the Italian Gardens, Momiji Garden and the Sanctuary remain in their vibrant and naturally intended states. In 2006, a tree policy was adopted by the PNE after consultation with City of Vancouver arborists and the organization continues work on the development of a Hastings Park pest management policy in consultation with the Vancouver Park Board.

The PNE remains committed to celebrating Hastings Park and making it an open, accessible space for the public to enjoy. Many steps have been taken in recent years to reduce real and perceived barriers to public enjoyment of the park. In terms of promoting ongoing public access, throughout 2007, public washrooms on-site remained open and maintained for public use during daylight hours, from dawn to dusk. The PNE also continued to monitor use of on-site equipment, such as parking barricades and bumper blocks, to minimize any barriers to public use and enjoyment of the site. The PNE began to explore options for wayfinding signage and continues to work with stakeholders on initial plans for walking paths and access routes throughout the park.

The semi-weekly site inspection program, implemented in 2004 to draw management attention to site issues, remained a priority throughout 2007 and resulted in many site appearance improvements and repairs that may have gone unnoticed in sites with a less diligent observation program. Some of the outcomes of this program are that the PNE continues to proactively initiate improvements to buildings and facilities, and ensures timely graffiti removal and garbage pickup, while also continuing to build and improve partnerships with interested community organizations to ensure the long-term sustainability of Hastings Park.

In 2007 the PNE contributed $3.46 million towards the maintenance of the site and buildings at Hastings Park. This was an increase in spending of $129,000 over 2006. PNE staff continued to confer with City of Vancouver arborists and park specialists where appropriate to ensure the Hastings Park site received the best possible care and attention. In addition, based on lessons learned during the extreme weather of 2006, the PNE continued to work on park protection plans and enhancement in order to minimize weather impacts on the park and gardens wherever possible.

The PNE remains committed to exploring plans that will ensure public access to and enjoyment of the park while also meeting the needs of our millions of annual event guests who come to celebrate at the PNE.

PNE in the Community

With a strong future at Hastings Park, the PNE is steadfast in its desire to positively impact the immediate city-wide and provincial community through its award-winning community outreach programs. The PNE has a proud tradition of giving back and its community outreach programs have evolved over 97 years, reflecting the changing times and social history of Vancouver. In 2007, highlights of the PNE community initiatives included:

- Awarded a $500 Miracle Mile Athlete Bursary each month to a BC amateur athlete who demonstrated dedication to sport, leadership and commitment to the community.
- Provided subsidized facility rentals and community ice to numerous non-profit and community groups.
- Distributed 360,000 complimentary Fair admission tickets to students enrolled in kindergarten through grade seven across BC through the Report Card Fair Ticket Program. This is one of the PNE's legacy community programs; over 15 million admission tickets have been given out since the program started in the 1940s.
- Expanded the Neighbourhood Clean-Up crew and the Neighbourhood Bike Patrol teams that patrol the streets around the PNE grounds during various events including the Fair and Fright Nights, picking up garbage and providing a presence for community safety.
- Continued the Hastings Park Pass program, through which passes are offered to residents in the Hastings-Sunrise area so they are able to access the park during the 17 days of the Fair. This ensures neighbours have access to paths for jogging and other regular park activities.

- Continued the Neighbourhood School Outreach Program, with support provided to 15 schools in the Hastings Park area. Highlights of the program's components include the proactive donation of 2,120 tickets to schools and students as well as hosting the Terry Fox National School Day Run.
- In 2007, the PNE launched a new Neighbourhood Group Outreach Program, through which ticket donations and other assistance were provided to the Hastings North Business Improvement Association and the Hastings Sunrise Community Policing Centre.
- Also launched was a new Charity Readerboard Message Program, which provides complimentary space on the electronic readerboard at the corner of Hastings and Renfrew Streets to help local charities raise awareness of important messages and causes.
- The PNE also continued to support a variety of neighbourhood groups and projects. Highlights included providing the Hastings Community Little League with a place to practice in the off-season and Playland One-Day PlayPasses for each player.
- The PNE provides complimentary space and support for a variety of events coordinated by neighbourhood groups.

The PNE remains committed to expanding its existing community outreach programs and implementing new and relevant ones in the years to come.

Charitable Contributions

The PNE regularly and generously gives back to the local and surrounding communities by using its resources to support other local charities. Highlights of charitable activities in 2007 include:

- Proudly donated tickets to the charity Kids Up Front Vancouver, which enabled underprivileged children and families to attend Playland, the Fair at the PNE, and numerous concerts held at the PNE. In total over 900 individuals attended PNE events through this program in 2007.
- Donated hundreds of Playland and Fair tickets in support of over 400 fundraising events benefiting charitable, community, educational, sports and non-profit groups across British Columbia.
- Our partnership with the Salvation Army's "You CAN Help" recycling program continued throughout 2007 and all cans, bottles and plastics collected from our guests on-site were donated to the Salvation Army to be recycled for deposits to help support programs for the underprivileged throughout Vancouver.
- Developed a partnership with Volunteer Vancouver to promote the website www.govolunteer.ca on the PNE's electronic readerboard.
- Designated several days of the 2007 Fair as "Charity Days", where charity partners raised funds on-site. 2007 partners included Raise-A-Reader, Canada Safeway Foundation, and CANStruction, a charity in support of the Greater Vancouver Food Bank Society.
- Hosted an annual charity auction that raised over $30,000 for the BC Youth in Agriculture Foundation, a key charity very close to the PNE, as it represents the roots of what the PNE was founded upon.
- Continued to support charities such as the CKNW Orphans' Fund through Playland special events to bring underprivileged kids to the park for their own private day of fun.
- For the past five years, the PNE has put together an annual team to Bowl for Big Brothers and, in 2007, raised over $6,000 for this charity. Staff also participates in a workplace Jeans Day to support the BC Children's Hospital Foundation.

In 2007, over $60,000 was raised for charity directly through PNE initiatives, and the charity program will be expanded in 2008 to support additional partners. The PNE is proud to be able to help and work with groups that do such great work in the community.

In 2007, over $60,000 was raised for charity directly through PNE initiatives.

Sustainability

The PNE remains committed to the goal of achieving sustainability in all aspects of PNE business. In this regard, 2007 was a year of great progress. A company-wide sustainability committee was formed and continues to meet regularly to create awareness within the organization and move new initiatives forward. Some of the sustainability highlights achieved throughout the organization include:

Corporate Initiatives

- Throughout the organization, best efforts are made to recycle paper, bottles, cans, plastics and discarded computer parts. Staff are encouraged to use reusable office supplies, have paper-free meetings, print two-sided, turn off computers at night and use low-energy Energy Star lighting in offices.
- Marketing collateral is printed on recycled paper, and the 2007 retail ticketing program moved to recyclable styrene paper product for gift cards, rather than PVC plastic. Marketing efforts are moving to web-based and email marketing wherever possible, and hybrids are being pursued as the PNE promotional vehicles.
- Human Resources utilizes direct deposit and epost for payroll, and most recruiting is done online rather than on paper. Old uniforms are donated to charitable organizations.
- PNE merchandise bags are 100% recycled paper, promotional bags are made from 100% recycled cotton, several promotional items are biodegradable corn products, and only vegetable ink is used to print graphics on merchandise.
- Suppliers are encouraged to provide environmentally preferred, "green", recycled and energy-efficient products wherever possible.
- The organization is utilizing more trees and natural elements in ride and landscape theme styling throughout the site.

Event Management Initiatives

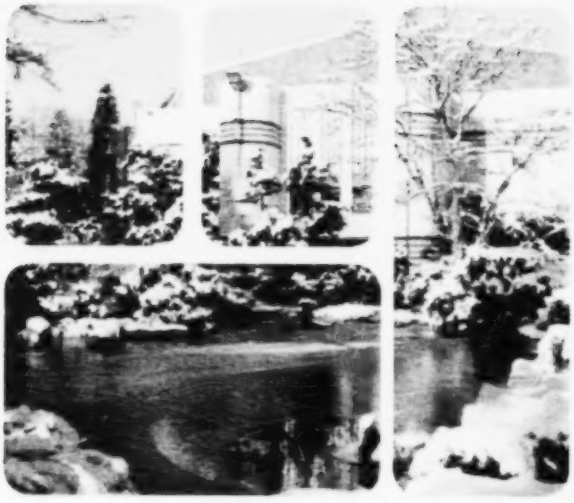
- Concession stands have been recently renovated in the Pacific Coliseum to include low-energy light fixtures and energy-efficient coolers.
- The PNE regularly promotes the use of public transportation to get to/from the PNE site in event marketing materials.
- We have a recycling program on-site in Playland during the Fair, and year-round in the Pacific Coliseum, to capture and recycle cans, plastics and bottles used by guests at events.
- The Food and Beverage department recycles bottles, cans, plastics, cardboard and grease from concession stands, and uses CFK-approved carry-out containers. Purchases are made in bulk whenever possible to reduce packaging, and staff are working to eliminate all foam products and replace them with paper products. Old freezers are being replaced with new energy-efficient ones, and new energy-efficient vending machines are also being installed. As well, environmentally friendly BioGize cleaning products are used throughout the department.
- Agricultural event dirt is reused, shavings are purchased in bulk and manure is composted, and we have developed a partnership with Compost Canada on-site to educate the public on composting.

- During the Fair, our "Country Store" promotes the 100-mile diet concept.
- In the PNE Prize Home, elements such as reclaimed hardwood flooring, cork flooring, fibre cement siding, TimberTech decking and low-voltage lighting are used.

Facilities Initiatives

- Our technical services teams are committed to the proper disposal and recycling of batteries, motor oil and containers, hydraulic oils, antifreeze, oil filters, containers and absorbents, aerosol cans, paint, wood, glass, vehicle tires, drywall, concrete and blacktop, steel, aluminum and copper.
- The team utilizes fluorescent or LED lighting throughout the site, and a computerized heating and lighting system and new energy-efficient T-8 fluorescents or metal halide lights were recently installed in the Coliseum, Rollerland, Forum and Garden Auditorium buildings.
- Leaves, grass clippings and tree trimmings are recycled for composting.
- The Pacific Coliseum ice plant was replaced and two energy-saving systems are being installed. These are variable-speed brine pumps to reduce electrical consumption, and a new heat recovery system, which uses the heat created by the compressors to assist with heating the building's hot water.
- The public washrooms in the Pacific Coliseum and the Forum have also been renovated to include low-flush toilets and urinals, automatic low-water use taps, and more energy-efficient lighting.
- The tech services team uses electric, propane or natural gas vehicles where possible (Zoom booms, Scissor lift, Scrubber, Zambonis, Forklifts, Electric Ice Edgers, electric golf carts) and remains committed to exploring the conversion of other fleet vehicles.

The PNE is very proud of its progress in this realm, and encourages suppliers, partners, sponsors and staff to continue to bring ideas forward, and remains committed to ongoing sustainability progress.



The PNE is proud to currently have more than 115 staff with over 25 years of service at the PNE.

Celebrating the PNE Team

In total, the PNE employs over 3,600 staff annually and provides over 470 full-time equivalent jobs. This consists of 2,500 Fair-time, 300 Playland, 600 part-time, 150 full-time and 60 management employees. The PNE is the largest employer of youth in the province, hiring more than 2,600 youth employees each summer. More than 50% of the employees who work at the PNE live in the city of Vancouver.

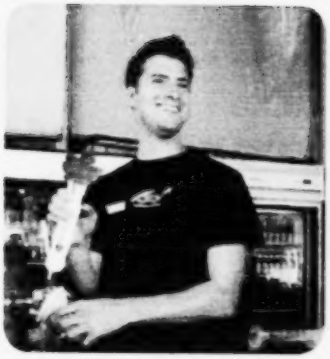
Much of the PNE's success over 97 years comes from the team of dedicated staff who form this organization. The PNE is proud to currently have more than 115 staff with over 25 years of service at the PNE. In appreciation of staff efforts, the PNE has implemented a number of programs designed to recognize team stars. These include the Pride and Spotlight Programs for year-round employees and the Star Program for Fair-time employees. The PNE also provides access for staff to an on-site fitness centre and social club, and holds several special staff appreciation events throughout the year.

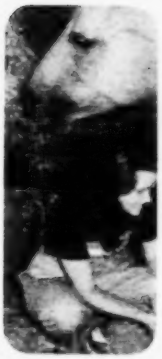
Through the organization's commitment to community and youth skill development, the PNE plays an active role in speaking at high schools and participating in community job education fairs, and takes great pride in its ability to provide key skills to the next generation of leaders.

Celebrating PNE Achievements

The PNE is also a hub of creativity and proudly pursues excellence in all that it does. We aim to provide value, a great guest experience and to set the standard for family entertainment. In 2006 the Fair at the PNE was awarded "Best Family Entertainment in Canada" by *Today's Family* TV show. 2007 highlights of PNE excellence include:

- International Fairs and Exhibitions Association (IAFE) Pinnacle Awards – Playland won a Gold award for Best Radio Promotion.
- Western Fairs Association (WFA) Awards – The Fair at the PNE won 1st place for Best Single Day Promotion with our Elvis Anniversary Celebration and Playland won 3rd place for its "Spanish" radio spot.
- Canadian Association of Fairs and Exhibitions (C.A.F.E) Awards – The Fair at the PNE won "Best Ideas Award" for its Eco Sculptures and Garden Display.
- Digital Marketing Awards (*Marketing Magazine*) – Playland won Advertiser of the Year for its "Alarm/Blender/Boomerang" campaign.
- Digital Marketing Awards – Playland creative won five gold medals, three silver medals and three award certificates for various aspects of the "Alarm/Blender/Boomerang" print and outdoor campaigns.





- London International Awards – Playland won silver awards for both Best Outdoor and Best Print Single for the "Barfing Stuffies" campaign.
- Digital Marketing Awards – Playland won a silver medal for our "Barry/Summer Report/Monday Morning" radio campaign.
- Lotus Advertising Awards (AAABC) – Playland won best B2C interactive website for the "Scream" promotional campaign. Playland also won two awards for Best Newspaper and Best Outdoor for the "Barfing Stuffies" campaign, merit awards for Best TV single with the "Revolve" campaign, Best Radio Single for the "Korean/German/Spanish" campaign, and Best Multimedia Campaign for the combined TV, radio and print campaigns.
- The Extra Awards for Entertainment & Media – Playland won an Extra award for the "Alarm/ Blender/Boomerang" print and outdoor campaigns.

The PNE takes great pride is working to be the best it can be, and these awards highlight the organization's collective achievements in many areas.

Public Consultation Process

At the end of 2003, the province entered into an agreement with the City of Vancouver to transfer ownership of the PNE from the province to the city. This transfer took effect January 1, 2004 and the City of Vancouver then embarked on a Public Consultation Process to define the future of Hastings Park and the PNE.

In June 2004, following a city-wide public consultation process, Vancouver City Council heard from delegates and reviewed a series of options for the future of Hastings Park and the PNE. Staff were directed to explore and further develop an approach that would ensure an ongoing role for the annual 17-day summer Fair, for a seasonal amusement park, and for the year-round operations of the site, all within the context of "greening" Hastings Park. A planning process remains underway, with a final master plan scheduled for completion post-2010.

2007 marked the third full year that the PNE has had tenure on-site due to the June 2004 decision by City Council to allow the continuation of the traditional operations of the annual summer Fair, Playland Amusement Park and year-round facility rentals. Despite the fact that there is still much detail to be determined about the specifics of future operations through the Hastings Park Master Planning Process, this tenure has allowed the PNE to plan for the future and make strategic investment into the site and operations that will continue to support its ongoing financial stability. The PNE continued to actively participate as a member of the key stakeholder group throughout 2007.

The PNE proudly continues to grow as a vibrant and dynamic organization dedicated to providing millions of visitors each year with first-class cultural, sporting and family entertainment as well as access to a diverse and active public park.

PARTS
Gatorade

C. Financial Highlights of 2007

Figure 13
Total operating surplus/deficit
(Net contribution 2001-2007)

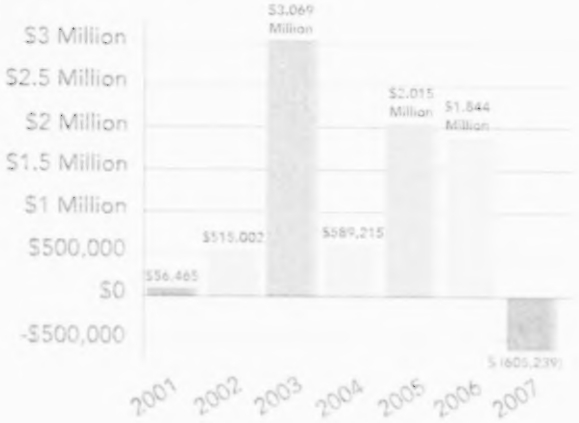
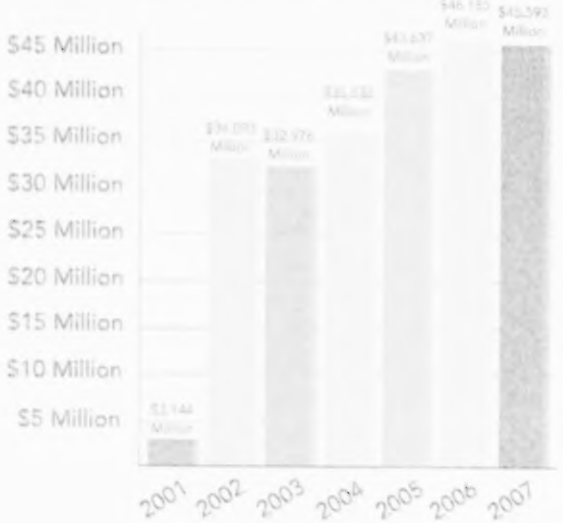


Figure 14
Total gross revenue 2001-2007



The PNE's overall financial performance in 2007 was significantly lower than anticipated due to ongoing inclement weather throughout the summer, which most prominently affected the Fair at the PNE. Year-round events showed strong performance, fuelled by an extensive playoff run by the Vancouver Giants and then by hosting the 2007 Memorial Cup Hockey Tournament. Playland also had a strong season, exceeding budgeted revenues and attendance. Net contribution from Playland, however, was slightly lower than anticipated due to higher-than-expected maintenance costs throughout the season. Most significantly, the Fair was hit with unusually poor weather that further contributed to a less-than-favourable overall financial result. Net revenues for the Fair were $2.40 million off-budget; however, the strength of year-round events and management mitigation efforts during and after the Fair resulted in the PNE being only $1.80 million off net revenues with a posted loss of $605,000 for the year.

Please see the audited financial statements for more detail and please see Figures 13 and 14 for gross and net revenue trends at the PNE since 2001.

Report of Management's Responsibility for Financial Statements

The Pacific National Exhibition Incorporation Act requires that the PNE table an annual report containing information about the organization's performance. PNE management prepares the following financial statements and related information and is responsible for their integrity. The statements were prepared using Canadian Generally Accepted Accounting Principles. The statements include amounts based on management's estimates and judgments. We believe that these statements represent fairly the PNE's current financial position. Management is also responsible for the accuracy and completeness of the information presented in the PNE's annual report. To fulfill this responsibility, management maintains financial and management control systems and practices that provide reasonable assurance the information is accurate and complete.

PNE officials who have provided the information contained in the 2007 annual report have verified its completeness and accuracy. Our independent auditors, BDO Dunwoody LLP, have audited the financial statements using Canadian Generally Accepted Auditing Standards, to the extent necessary to form an independent opinion on the financial statements prepared by management.

Michael McDaniel
President & Chief Executive Officer

Roger Gil
Vice President, Finance & Corporate Services

V. Corporate Governance

2007 BOARD OF DIRECTORS

Mr. Brent MacGregor – Chair to Sept 12, 2007
Mr. James Ridge – Chair Sept 13, 2007 through Dec 31, 2007
Ms. Susan Mundick – Director
Ms. Estelle Lo – Director
Mr. Michael Zora – Director

2007 COMMUNITY ADVISORY COMMITTE

Ms. Stephanie Williamson – Community Advisor (representing North Hastings BIA)
Mr. Hakam Bhaloo – Community Advisor (representing Leadership Vancouver)
Mr. Rolf Tevely – Community Advisor (representing Hastings Community Association) Feb 22, 2007 through Dec 13, 2007
Vacant – Community Advisor (representing Vancouver Economic Development Commission)

EXECUTIVE MANAGEMENT COMMITTEE

Mr. Michael McDaniel – President and Chief Executive Officer
Mr. Jason Christopherson – Vice President, Finance and Corporate Services to Oct 31, 2007
Mr. Roger Gil – Acting Vice President, Finance and Corporate Services Nov 1, 2007 through Dec 31, 2007
Mr. Michael MacSorley – Vice President, Operations
Mr. Peter Male – Vice President, Sales
Ms. Shelley Frost – Vice President, Marketing
Ms. Stacy Shields – Vice President, Human Resources
Ms. Salome Valente – Executive Assistant and Corporate Secretary to July 18, 2007
Ms. Kate Huffman – Executive Assistant July 19, 2007 through Dec 31, 2007

CORPORATE GOVERNANCE PRACTICES

The Pacific National Exhibition is a non-profit registered charity owned by the City of Vancouver. The company's business affairs are the responsibility of the Board of Directors, a City Council appointed body. The PNE's Board of Directors is committed to ensuring corporate governance practices are open and effective and that the Board is fully accountable and assumes responsibility for the stewardship of the organization. The Board discharges responsibility of day-to-day operations to the President and Chief Executive Officer, who in turn selects and oversees the rest of the management team. The Board encourages management, under the direction of the President and Chief Executive Officer, to make clear and appropriate executive decisions.

2007 AUDITOR

BDO Dunwoody LLP Chartered Accountants
600 – 925 West Georgia Street
Vancouver, BC Canada V6C 3L2

Telephone: (604) 688-5421
Telefax: (604) 688-5132
E-mail: vancouver@bdo.ca

VI. Auditors' Report

BDO Dunwoody LLP
Chartered Accountants
600 - 925 West Georgia Street
Vancouver, BC, Canada V6C 3L2
Telephone: 604-688-5421
Fax: 604-688-5132
Email: vancouver@bdo.ca

BDO

To the Directors of the
Pacific National Exhibition

We have audited the Statement of Financial Position of the Pacific National Exhibition as at December 31, 2007 and the Statements of Operations, Net Assets and Cash Flows for the year then ended. These financial statements are the responsibility of the Pacific National Exhibition's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Pacific National Exhibition as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Pacific National Exhibition Act, we report that, in our opinion, these principles have been applied on a consistent basis.

BDO Dunwoody LLP

Chartered Accountants
Vancouver, British Columbia
February 29, 2008

VII. Statement of Financial Position as at December 31, 2007

	2007	2006
Assets		
Current		
Accounts Receivable	1,688,783	1,045,890
Inventories	1,011,669	661,356
Prepaid Expenses	700,664	581,736
Assets held for sale	167,500	-
	3,568,616	2,288,982
Property and equipment (Note 3)	10,514,976	8,856,176
	$ 14,083,592	$11,145,158
Liabilities and Net Assets		
Current Liabilities		
Bank Indebtedness (Note 4)	$ 177,770	$ 79,134
Accounts Payable and accrued liabilities	2,431,802	2,542,212
Bank Loans - Operating Portion (Note 4)	1,820,810	1,080,000
- Capital Portion (Note 4)	3,099,190	-
Deferred Revenue	318,700	271,094
Current portion of obligations under capital leases (Note 6)	870,096	1,275,760
	8,718,368	5,248,200
Deferred contributions (Note 5)	1,123,457	232,023
Obligations under capital leases (Note 6)	397,308	1,215,621
	10,239,133	6,695,844
Net Assets		
Net assets invested in property and equipment	5,024,925	6,132,772
Unrestricted net deficiency	(1,180,466)	(1,683,458)
	3,844,459	4,449,314
	$ 14,083,592	$ 11,145,158

Financial Instruments (Note 2)
Pension Plan (Note 7)
Outstanding Lawsuits (Note 8)
Related Party Transactions (Note 9)
Commitment (Note 10)

Approved by the Board of Directors

Director

Director

VIII. Statement of Operations
for the year ended December 31, 2007

	2007	2006
Revenue		
Events	$ 45,049,923	$ 45,541,764
Amortization of deferred contributions	108,566	42,645
Other	434,590	600,783
Total Revenues	45,593,079	46,185,192
Operating Expenses	44,543,903	42,877,302
Operating Earnings	1,049,176	3,307,890
Other Expenses		
Amortization	1,216,413	1,108,703
Interest - Bank Loans	297,543	203,965
Interest - Capital Leases	140,075	150,565
Total other Expenses	1,654,031	1,463,233
Excess (deficiency) of revenue over expenses	$ (604,855)	$ 1,844,657

IX. Statement of Changes in Net Assets for the year ended December 31, 2007

	2007			2006
	Invested in property & equipment	Unrestricted	Total	Total
Net assets - Beginning of year	$6,132,772	($1,683,458)	$4,449,314	$2,604,657
Excess (deficiency) of revenue over expenses for the year	(1,107,847)	502,992	(604,855)	1,844,657
Net assets - End of year	$5,024,925	($1,180,466)	$3,844,459	$4,449,314

X. Statement of Cash Flows
For the year ended December 31, 2007

	2007	2006
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses for the year	$ (604,855)	$ 1,844,657
Items not affecting cash:		
Amortization	1,216,413	1,108,703
Amortization of deferred contributions	(108,566)	(42,645)
	502,992	2,910,715
Net change in non-cash working capital items	(1,342,438)	1,200,409
	(839,447)	4,111,124
Cash flows from financing activities		
Increase (decrease) in bank loans	3,840,000	(2,223,272)
Principal payments under capital leases	(1,223,976)	(1,210,915)
	2,616,024	(3,434,187)
Cash flows from investing activity		
Net purchase of property and equipment	(1,875,213)	(1,352,067)
	(1,875,213)	(1,352,067)
Decrease in cash	(98,636)	(675,130)
Cash (Bank indebtedness) - Beginning of year	(79,134)	595,996
Bank indebtedness - End of year	$ (177,770)	$ (79,134)

XI. Significant Accounting Policies
December 31, 2007

Inventories

Inventories consist of stores, plush toys, merchandise, food and beverages, and are valued at the lower of cost or net realizable value. Cost is determined by the average cost method.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Machinery, furniture, and equipment	10 – 30%	Declining balance method
Playland rides and equipment	5 – 15 years	Straight line method
Playland rides under capital lease	15 years	Straight line method

Deferred revenue

Advertising revenue for long-term contracts is recognized on a straight line basis over the term of the related contract. Deferred revenue also comprises deposits for events that are not recognized in revenue until the event is held.

Revenue recognition

Revenues from the annual Fair are recorded as received (admissions) and as earned (exhibitors and advertisers). The Fair runs from late August to early September. Any exhibitor or advertising fees received for next year's Fair are deferred and will not be recognized until earned during the next year's Fair.

Revenues from Playland amusement park are recognized as received (admissions) and as earned (advertisers).

Revenues from short-term event rental of facilities are recorded upon completion of the event.

Contributions from the City of Vancouver, from senior government, or from other donors are recorded following the deferral method. Contributions are recorded as receivable if the amount can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recorded as revenue when they are deemed receivable. Contributions with a designated purpose are deferred until used for the intended purpose. Contributions to fund property or equipment acquisitions, and improvements are deferred and recognized on the same basis as the related property or equipment is amortized.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures for the reporting period of the statement of operations. Areas involving significant estimation include contingencies and the life and amortization rates of property and equipment. Actual results could differ from those estimates.

Financial Instruments

Effective January 1, 2007, the PNE classifies its financial instruments as follows:

Held for trading

Any financial instrument whose fair value can be reliably measured may be designated as held for trading on initial recognition or adoption of CICA 3855 *Financial Instruments – Recognition and Measurement*. The PNE has designated cash on initial recognition as held for trading. These instruments are initially recognized at cost. Upon application of the financial instruments accounting policy, they are recognized at their fair value, determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Net gains and losses arising from changes in fair value are recognized immediately in income.

Loans and Receivables

The PNE has classified the Accounts Receivable as loans and receivables. This asset is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment.

Other financial liabilities

The PNE has classified the following financial liabilities as other financial liabilities: Bank Indebtedness, Accounts Payable and accrued liabilities and Bank loans. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the PNE are as follows:

Disclosures and Presentation

CICA 3862 *Financial Instruments-Disclosure*, increases disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA 3863 *Financial Instruments-Presentation*, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The PNE is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

Inventories

The CICA has issued Section 3031-*Inventories*, which provides guidance on determining cost as well as other recognition, measurement, disclosure and presentation issues related to inventories. The standard includes guidance on the treatment of excess capacities, inventory valuation and write-downs and additional elements to be considered in measuring inventory costs. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1st, 2008. The PNE is currently assessing the impact of the new standard.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400-*General Standards on Financial Statement Presentation*, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The PNE is currently assessing the impact of the new standard.

XII. Notes to Financial Statements
December 31, 2007

1. Nature of Operations

The Pacific National Exhibition is a premier entertainment destination in the province of British Columbia. It has four main activity streams: an annual 17-day fair, Playland amusement park, year-round facilities which are utilized to celebrate a variety of community, social, cultural, ethnic and commercial events, and the care and development of the park. The Pacific National Exhibition's venues will also host activities during the upcoming 2010 Olympic and Paralympic Winter Games.

The mission of the Pacific National Exhibition is to enrich the quality of life at Hastings Park, Vancouver, by providing family entertainment that invites its guests to celebrate Vancouver's heritage, culture and diverse communities in a vibrant urban park.

Effective January 1, 2004 the Pacific National Exhibition became wholly owned by the City of Vancouver; however its operations are self-sustaining. As a result of its ownership and its registered charity status, the Pacific National Exhibition is not subject to income taxes.

The Pacific National Exhibition was established in 1910 and incorporated in 1973 under the Pacific National Exhibition Incorporation Act of the Province of British Columbia.

2. Financial Instruments

Bank Loans:
The Pacific National Exhibition has an operating credit facility with a Canadian chartered bank in a combination of US and CDN dollars. The operating line bears interest at the bank prime rate.

Financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and bank loans. It is management's opinion that the PNE is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

The fair value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and bank loans all approximate their carrying value due to their relatively short maturities.

3. Property and Equipment

	Cost	Accumulated Amortization	2007 Net	2006 Net
Machinery, furniture and equipment	$10,079,828	$5,950,500	$4,129,328	$2,678,901
Playland rides and equipment	13,358,407	9,814,036	3,544,371	2,080,246
	23,438,235	12,226,796	7,673,699	4,759,147
Capital Projects in progress	734,045		734,045	246,336
Playland rides under capital Lease	2,773,439	666,207	2,107,232	3,850,693
	$26,945,719	$16,430,743	$10,514,976	$8,856,176

4. Bank Loans

Included in the bank loans is an amount of $60,000 denominated in US dollars (2006 – $NIL). The interest due on this loan is payable in US dollars.

The Pacific National Exhibition has an operating line credit facility with a Canadian chartered bank providing for maximum borrowing of $10.4 Million from January 1 to September 8, 2008 and for $12 Million for the remainder of the year in a combination of US and CDN dollars.

The operating line bears interest at the bank prime rate and is due on demand. A general security agreement covering all assets and undertakings of the Pacific National Exhibition has been provided as collateral for the operating line as well as a guarantee and postponement of claim by the City of Vancouver in the amount of $12 Million.

In addition, the guarantee by the City of Vancouver includes the amount of letters of credit outstanding totaling $45,000 (2006 - $45,000).

5. Deferred Contributions

	2007	2006
Balance - Beginning of year	$232,023	$274,667
Add: contributions used to acquire property, and equipment	1,000,000	-
Less: amounts amortized to revenue	(108,566)	(42,645)
Balance – end of year	$1,123,457	$232,023

In 2007, $1,000,000 was received from the City of Vancouver and utilized in full to fund capital upgrades and improvements to the Pacific National Exhibition's facilities.

6. Obligations Under Capital Leases

The future minimum lease payments under capital leases are as follows:

Year ending December 31	
2008	$913,967
2009	421,765
	1,335,733
Less: Amount representing interest	(68,329)
Principal Obligation	1,267,404
Less: Current Portion	(870,096)
	$397,308

Interest rates on capital leases range from 4.40% – 7.00% annually.

The capital leases provide that at the end of the respective lease terms, the Pacific National Exhibition is required to either extend the term of the lease, purchase the asset based on a pre-determined option price, or return the asset to the lessor and pay the lessor any shortfall between the fair value of the asset upon return and the pre-determined residual value.

The above lease schedule of lease payments assumes that the purchase options are exercised at the end of the lease term.

7. Pension Plan

The Pacific National Exhibition and its employees contribute to the Municipal Pension Plan (the plan), a jointly trusteed pension plan. The Board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 144,000 active members and approximately 51,000 retired members. Active members include approximately 35,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2006 indicated a surplus of $438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the surplus to individual employers. Contributions by the Pacific National Exhibition to the Plan in fiscal 2007:

	2007	2006
Employee	$576,315	$552,706
Employer	593,793	565,978
Total	$1,170,108	$1,118,684

8. Outstanding Lawsuits

Various lawsuits and claims are pending by and against the Pacific National Exhibition. It is the opinion of management that final determination of these claims will not materially affect the financial position of the Pacific National Exhibition. Estimates of costs anticipated to result from claims are accrued where the amount can be reasonably estimated. Any differences from the estimates or any losses on claims that cannot be estimated will be recorded in the year the settlements occur.

9. Related Party Transactions

During the year the Pacific National Exhibition paid the following amounts to the City of Vancouver:

	2007	2006
Water Billings	$417,258	$377,878
Policing Services	208,972	139,042
Permits and Other	25,948	24,930
Total	$652,178	$541,850

These transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by the related parties.

Included in accounts receivable is $556,739 (2006 - $Nil) due from the City of Vancouver.

10. Commitment

The PNE has entered into construction agreements for 2008 in the amount of $1,514,213.

11. Change in Accounting Policy

Effective January 1, 2007, the PNE adopted the Canadian Institute of Chartered Accountants' new recommendation for the recognition and measurement of financial instruments and amendments to the existing presentation and disclosure standards. CICA 3855 *Financial Instruments-Recognition and Measurement* establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives. CICA 3861 *Financial Instruments Disclosure and Presentation* discusses the presentation and disclosure of these items. Financial instruments are defined as a contractual right to either receive or deliver cash or another financial instrument to another party.

Amendments to CICA 4400 *Not-For-Profit Organizations* require presentation of gains, losses, revenues and expenses arising from derivatives, hedges and other financial instruments as separate components of the change in net assets. The PNE does not have any transactions which qualify for hedge accounting.

Transactions entered into prior to the adoption of these recommendations have not been retroactively designated. In accordance with the transitional provisions, the prior year comparative figures have not been restated.

Pursuant to the requirements of these financial instruments standards, the PNE now classifies and recognizes its financial assets and liabilities as described in Significant Accounting Policies under Financial Instruments. Upon adoption the PNE re-measured its held for trading financial assets at their fair value, and its loans and receivables and other liabilities at their amortized cost. This resulted in no change to unrestricted net deficiency as at January 1, 2007.

Pacific National Exhibition
007 4-H Auction
Champion
Market Lamb